THE ROLE OF THE STOCK MARKET IN THE MOBILIZATION OF LONG-TERM FINANCIAL RESOURCES

Lamiya GASIMOVA
PhD student in the Department of Finance and Financial Institutions of the Azerbaijan State University of Economics, Baku, Azerbaijan, email: Iqtisad7@gmail.com

Abstract. The main purpose of the research is to define mobilization of long-term financial resources in the stock market, to analyse the current situation and give some suggestions for improvement of investment. The author tries to research the impact of investment on the stock market because everyone knows long-term financial resources are very significant for the market and affect economic growth. The paper examines the current state of investment activity in the stock market in our republic and around the world, as well as the impact on the economy of this activity is investigated. The author investigates the impact of investment activity in the stock market on the economy and ways of correct use of investment activity. Indeed, investment is a long-term investment in various sectors of the economy for making profit. Investment – consists of financial means put into objects of entrepreneurship and other types of activity, as well as material and intellectual resources for the purpose of earning (profit) or social benefits. Despite its popularity and presence in the news, the stock market is just one of many potential places to invest your money. Investing in stocks is often risky, which draws attention to the huge gains and losses of some investors. If you manage the risks, you can take advantage of the stock market to secure your financial position and earn money.

Keywords: capital, investment, market, securities market, share, stock.
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Introduction

Mobilization of the resources can be either for short term or for long term. The economy consists of a huge number of enterprises and individuals, requirements of all of them differ. Some have surplus cash to save, while others need cash. Some firms/individuals have short term liquidity needs, some want money for long-term capital investment. Capital market intermediaries are like insurance companies, housing finance companies, pension funds, and investment funds etc., which mobilize savings and fund long-term investments. A person having surplus money for long term may be willing to ‘lend’ or to ‘invest’. That forms distinction between debt and equity. The former, the lender, will get fixed return and the latter, the investor, will get a share of the profit.

As you know, the establishment of an efficient stock market is, therefore, indispensable for any economy that is keen on using scarce capital for sustainable economic growth. While governments need to play an active role in the business of the market through, say, privatization via the stock...
exchange, regulatory bodies should embark on aggressive promotion of the exchanges’ activities across all sectors of the economy, and encourage all potent players. Remember, it is an investment ground for all.

The financial sector plays an essential role in providing and channelling financing for investment. Beyond providing short-term finance for businesses’ day-to-day operations and other temporary cash requirements, financial institutions, capital markets and institutional investors are also sources of long-term finance that is the finance that is available for an extended period of time. The importance of long-term finance lies in its pivotal role in satisfying long-term physical investment needs across all sectors in the economy and specifically in key drivers of growth, competitiveness and employment such as infrastructure, real estate, R&D and new ventures (OECD, 2013).

Investment is money or capital circulation with the purpose of earning additional income. Warren Buffet, the legendary investor, stated investment as follows: “The process of depositing money means a lot of money in the future”. The main purpose of investment is to capitalize on one or more investment tools with the hope that your money will grow over time.

Resource mobilization through stock markets

Long-term financing uses long-term financial resources, for which it has to be reminded that long-term financial resources are also used to cover that part of current assets of the company, which has a permanent character and makes up the working capital of the company.

In the long-term functioning market economies, the financing of investment projects of the company is mainly provided by internal financial resources, and primarily by depreciation.

One of the hardest aspects of the stock market to judge is when to sell your investments. Since the market is constantly fluctuating, it is hard to judge accurately what will happen to stock prices in the future. Many investors get scared when the market drops and sell out of fear, while others hold on to declining stocks too long in hopes of a rebound. However, there are no set guidelines that govern whether to invest for a long period of time or a short period of time. Long term investing and short term investing each have their pros and cons, and it is hard to say definitively which strategy is more rewarding. Although each approach has its strengths and weaknesses, investors must decide for themselves what timeframe of investing will better suite their trading style and situation. Long-term investments typically take years and years before showing any profit, which is obviously not acceptable if the money is needed at the moment. By contrast, long-term investments span large time frames and offer typically greater rewards. Long-term
investments span many years, usually decades, and are relatively low risk. This type of investment works by compounding the initial amount, taking a small investment and turning it into a substantial profit.

Success in achieving major economic policy and long run financial objectives of the economy requires a good working policy on financial resource mobilization and expanded capital formation.

Thus, the main objectives of any financial resource mobilization policy should be:

1. To assist in increasing the Gross Domestic Saving Rate by changing the unnecessary and inappropriate consumption patterns.
2. To create an atmosphere conducive to channelling the investment to productive sectors by raising the total investment growth rate by significant percentage points as may be predetermined.
3. To avail regular supply of financial resources in required quantity in order to carry out development activities in an uninterrupted and sustainable manner.
4. To make efforts for efficient mobilization of internal resources and to make appropriate and optimum utilization of foreign assistance.
5. To utilize the internal and external resources in a complementary way considering their interrelationships.

The capital market refers to the organization and the mechanism through which companies, other institutions and the government raise long-term funds. Therefore, it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issuing various securities such as shares, debentures, bonds, etc. For trading of securities, there are two different segments in the capital market. One is the primary market and the other is the secondary market. The primary market deals with a new/fresh issue of securities and, therefore, it is known as the new issue market. On the other hand, the secondary market provides a place for purchase and sale of existing securities and is known as the stock market or a stock exchange. The new issue market primarily consists of the arrangements that facilitate the procurement of long-term finance by companies in the form of shares, debentures and bonds. The companies usually issue those securities at the initial stages of their formation and so also later on for expansion and/or modernization of their activities. However, the selling of securities is not an easy task, as the companies have to fulfil various legal requirements and decide upon the appropriate timing and the method of issue. Hence, they seek assistance of various intermediaries such as merchant bankers, underwriters, and stockbrokers etc. to look after all these aspects. All these intermediaries form an integral part of the primary market. The secondary market (stock exchange) is an association or organization or a body of individuals.
established for the purpose of assisting, regulating and controlling the business of buying, selling and dealing in securities. It may be noted that it is called a secondary market because only the securities already issued can be traded on the floor of the stock exchange. This market is open only to its members, most of whom are brokers acting as agents of the buyers and sellers of securities. The main functions of this market lie in providing liquidity (ready encashment) to securities and safety in dealings. It is because of the availability of such facilities that people are ready to invest in securities (Levine, 2005).

Equity markets are seen as a prerequisite for corporations to get access to capital they need for innovation, value creation and growth. This is particularly important in the aftermath of the financial crisis when national economies seek more long-term corporate investment. However, the last decade has seen fundamental changes in equity market structure and trading practices and the way that the equity is owned. This has changed the framework in which companies operate and conditions for exercising corporate governance. These changes have had a direct impact on the willingness and ability of new companies to be listed on stock exchanges (OCED, 2013).

Several forces are converging to reshape global capital markets in the coming decade. The rapid accumulation of wealth and financial assets in emerging market economies is the most important of these. Simultaneously, in developed economies, aging populations, growing interest in alternative investments, the move to defined-contribution pension schemes and new financial regulations are changing how money is invested. These forces point to a pronounced rebalancing of global financial assets in the coming decade, with a smaller share in publicly listed equities (McKinsey Global Institute, 2011).

In modern times, people are often divided into two groups for their ideas about investment. The first group of people thinks that investment is a kind of gambling. They are convinced that if you have invested, you will definitely lose one day. However, the second group of people believes that investing is a must. They simply do not know where to begin. The main purpose of investors is to make a right decision on what they have invested before earning income.

The key to investing in stocks is that the investor is able to earn profit as a shareholder and can find ways to increase his/her capital by choosing the right position. Shares are investments that provide partial ownership in the company and that are parts of the company’s profits and assets. In the past, stockholders got a share certificate, which was also referred to as a “security certificate”, confirming how much they owned.
However, nowadays share ownership is registered electronically and shares are registered by the investor’s brokerage firm called “street name”. “Street name” is the input of the shareholder who is acting as an owner instead of a share certificate to the list in electronic form. That is, in this case there is no need to go to the stock market and lose time for the shareowner. By contacting the broker, the investor records how much the stock is needed, the broker registers all of the shares needed instead of the shareholder, thereby making all the operations within a very short time frame (Frank, 2011).

A person who holds a corporate bond does not have ownership of the company. The financial position of the bondholder is similar to the financial position of the lender. The company’s shareholder is actually a shareholder. The company that wants to invest in capital equipment may negotiate with the broker to organize a new number (issuance) of its share certificates. The broker, in turn, is developing a plan for introducing the company’s investment proposal and offering new shares to the public for sale.

Although each of the investment resources is a segment of the financial market, each of them has specific features according to types of securities. Securities, in turn, act as mediators for the investor, and the investor, thanks to this, is investing in them.

As you know, there are various participants involved in the stock market as brokers, stock analysts, portfolio managers, traders, investment banks. Each of these participants has a specific role. However, most of these activities are interrelated and depend on each other to ensure the market’s effectiveness.

Although there was significant evidence of market efficiency, researchers also noted that there were a number of ineffective and anomalous cases that led to incorrect valuation of securities. If market anomalies persist, there may be exceptions to the market efficiency concept. In other words, market anomalies occur when the price of an asset or securities does not coincide with existing and relevant information available in the market. Although it is interesting to consider these mentioned shortcomings, it is not always practically easy to try to take advantage of them. In fact, most researchers have come to this conclusion that these anomalies violate not only the market’s effectiveness, but also these are the results of a statistical methodology used to detect these anomalies (CFA Institute, 2012).

Consequently, if these methodologies are corrected, most of these anomalies will disappear.

Shortcomings in the banking system and fear of losing savings force people to think about making a profit by investing in alternative ways. Today, we often hear how to invest in the stock exchange. There are two ways to
invest in stock markets: either independently or through investment companies. To invest independently is to invest by brokers who sell securities. It is more difficult to sell securities without a broker.

Speaking about the risks involved in investing in the stock market, it should be noted that, if there is awareness, it is almost equal to zero risk. The investor should also consider carefully the structure of its portfolio. It should not be just one company’s shares. The most effective portfolio includes the shares of 4-6 companies. This will make more revenue. Investing in securities will help to achieve high returns in a short period of time. However, it is not enough to have information of stock exchanges to gain high returns on investment, but it is important to collect information about all financial markets. The investor should also have information on production and economic development laws, as well as financial analysis skills. It should be noted that the investor can expect a higher yield as long as it remains in the market (Mladjenovic, 2011).

Today, the advantages of investing in listed equities are being questioned in light of corporate scandals and a perception that the markets may no longer serve the interests of ordinary investors. However, equity markets, when functioning properly, provide significant benefits across an economy. They are an important source of long-term financing for high-growth companies; they allocate capital efficiently; and they disperse risk and reduce vulnerability to bankruptcy. These advantages outweigh shortcomings, we believe, and make public equity ownership an important element of a balanced global financial system.

Every bank has in common the concept of converting money and making a profit for doing so. You deposit your money in a local bank - they pay you interest and then make a profit by loaning it as a mortgage.

Investment banks have numerous ways how they perform this service. E.g., they convert the shares of a privately held corporation into those of a public company. They collect a commission on the sale of shares. On the other hand, they structure and sell municipal bonds, thus converting a city’s tax base into cash. Alternatively, they arrange to sell the stock of a company to a buyer and collect a commission for doing so. Investment banks help corporations issue new shares of stock in an initial public offering or follow-on offering. They also help corporations obtain debt financing by finding investors for corporate bonds. The investment bank’s role begins with pre-underwriting counselling and continues after the distribution of securities in the form of advice. Investment bankers are agents who act on behalf of investors in the stock market. As agents, investment bankers have multiple roles. They conduct market research in the form of legal and market analysis before the investment takes off. When a company wants to raise money through the stock market, it approaches an investment bank for the two
analyses to gauge the viability of the company decision. Investment bankers then determine whether the company should raise money through debt issuance or equity.

The biggest deals on Wall Street and other stock markets in the world are brought to the table by investment bankers. They are virtually behind all financial transactions that move the stock markets, including security offerings, mergers and acquisitions and initial public offerings. Investment bankers operate behind the scenes, which makes their functions less known to the public. However, understanding the operations of stock markets begins by understanding the functions of investment bankers. Investment banks perform a less glamorous role in stock offerings as well. It is their job to create the documentation that must go to the Securities and Exchange Commission before the company can sell its shares. This means compiling financial statements, information about the company’s management and current ownership and a statement of how the firm plans to use proceeds.

The securities market of Azerbaijan is quite young compared with other countries. For the development of this field, the President of the Republic of Azerbaijan signed a State Programme for development of the securities market in the Republic of Azerbaijan in 2011.

The emergence of market makers, transparency of transactions and improvements of corporate standards to increase liquidity in the securities market have led to the development of this field. Enlightening the market participants, explaining the advantages of the field, establishing the Capital Markets Training Centre by the SCS are just a few of the works done for the development of the field.

The author thinks that after this stage, further development of the securities market depends on professional participants. At present, it is possible to trade in shares, corporate and government bonds, as well as, currency and commodity-based derivatives. In the market, there are the dealers of investors who act as a market maker at any time to trade some corporate bonds and all types of derivatives, which is a factor in supply and demand.

In 2014, annual yields of government bonds, of corporate bonds, of profitability from equity valuation of shares and of profitability on derivatives with credit leverage ranged from 1.5 - 4.25%, 8 - 13%, up to 60% and more than 100% per annum respectively. In this case, the investor should understand that financial assets with high profitability are highly risky as profitability is directly proportional to the risk.

The securities market plays a major role in expanding the scope of financial relations in every society. The operation of an organized securities market in Azerbaijan is one of the main factors in the development of the
country’s economy. If we look at the statistics, we will see the development of this market even though it is young. During the first half of 2017, there was an increase in individual market segments, although the securities market generally dropped.

Thus, the secondary market of securities increased by 54% and exceeded 2.975 billion manat during the reporting period. The government securities market increased 4.3 times, while corporate securities market decreased by 64%. During January-June 2017, the securities market decreased by 26% compared with the same period of last year and amounted to 5.230 billion manat.

As we see, Azerbaijan securities marked featured growth in 2017; significant qualitative changes also took place along with positive quantitative changes. In general, the amount of deals in the primary stock market made up AZN 1 bln, which was 6.5 times more than that in the previous reporting period. Deals for corporate securities decreased in comparison with the figure in the same period of the previous year and amounted to AZN 1.9 bln. However, we can see an increasing trend in the securities market; in 2016, it made up AZN 1.9 bln, which was 54% less than in 2017.

Table 1 General indicator of the stock market in Azerbaijan (2016-2017) *(Central Bank of the Republic of Azerbaijan, 2018)*

<table>
<thead>
<tr>
<th>General indicators</th>
<th>2017</th>
<th>2016</th>
<th>Difference in amount</th>
<th>Market share (%)</th>
</tr>
</thead>
<tbody>
<tr>
<td></td>
<td>January-June</td>
<td>January-June</td>
<td></td>
<td></td>
</tr>
<tr>
<td></td>
<td>Deals</td>
<td>Amount (AZN)</td>
<td>Deals</td>
<td>Amount (AZN)</td>
</tr>
<tr>
<td>Corporate securities</td>
<td>1430</td>
<td>1904387576</td>
<td>1342</td>
<td>5240534751</td>
</tr>
<tr>
<td>Primary market</td>
<td>95</td>
<td>1176613000</td>
<td>135</td>
<td>495416440</td>
</tr>
<tr>
<td>Secondary market</td>
<td>1335</td>
<td>727774576</td>
<td>1207</td>
<td>286368311</td>
</tr>
<tr>
<td>Government securities</td>
<td>310</td>
<td>110638702</td>
<td>107</td>
<td>259173678</td>
</tr>
<tr>
<td>Primary market</td>
<td>266</td>
<td>1077507510</td>
<td>74</td>
<td>166195805</td>
</tr>
<tr>
<td>Secondary market</td>
<td>44</td>
<td>28881192</td>
<td>33</td>
<td>92977874</td>
</tr>
<tr>
<td>Derivative financial instruments</td>
<td>36723</td>
<td>2207563336</td>
<td>20838</td>
<td>1552826372</td>
</tr>
<tr>
<td>Repo/reverse-repo</td>
<td>17</td>
<td>11577452</td>
<td>0</td>
<td>0</td>
</tr>
<tr>
<td>Securities market</td>
<td><strong>38480</strong></td>
<td><strong>5229917066</strong></td>
<td><strong>22287</strong></td>
<td><strong>7052534802</strong></td>
</tr>
<tr>
<td>Primary market</td>
<td>361</td>
<td>2254120510</td>
<td>209</td>
<td>5120362245</td>
</tr>
<tr>
<td>Secondary market</td>
<td>38119</td>
<td>2975796556</td>
<td>22078</td>
<td>1932172557</td>
</tr>
</tbody>
</table>
One of the main conditions for the development of the securities market in Azerbaijan is the forming of trademarks of local companies as a brand. This is because confidence in the brand of the issuer, which has invested its shares in the stock market, can attract cheap financial resources from investors, which, in turn, will lead to the stock market turnover increase. At the same time, as in the world practice, the shares of companies with strong trademarks are much more expensive than those of ordinary companies, which, in turn, leads to an increase in equity market capitalization. In this way, the interest of small investors in the debt securities market will increase and of institutional investors are largely dependent on their strategic objectives. Generally, participating in the management of brand companies and thus gaining profits from re-selling securities as a result of future increase in exchange rates would be important factors for them.

Conclusions and suggestions

At the same time, nowadays the activities of foreign investors in the Azerbaijan Securities Market are among the most important factors in the development of the country’s economy. Despite the number of problems in the stock market in Azerbaijan, the foreign investors and international organizations consider the Azerbaijani market as a prospective market in terms of capital investment, which is associated with a favourable investment condition in the country.

Nowadays the securities market is of particular importance in attracting and allocating funds as a part of the financial market. The author suggests that it would be necessary to be fully utilized of commercial bank activities in the securities market and to enhance this activity in the establishment of investment resources, as commercial banks have more investment opportunities.

The evidence presented in the paper does not provide strong support for the view that stock market inefficiency, to the extent that it exists, has an economically significant influence on business investment. When other determinants of investment are controlled for, share prices do not seem to explain much of the variation in investment in any of G7 countries. For some countries, there is an evidence that an estimate of 58 components of share prices not related to available information correlates with investment to a statistically significant degree. However, the magnitude of this relationship is too small to be meaningful economically, and the design of the tests are biased towards such a finding.
References


